

**REPORT OF THE AUDIT OF THE  
HENDERSON COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE HENDERSON COUNTY SHERIFF**

**For The Year Ended  
December 31, 2008**

The Auditor of Public Accounts has completed the Henderson County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$110,250 from the prior year, resulting in excess fees of \$964,864 as of December 31, 2008. Revenues decreased by \$87,162 from the prior year and expenditures increased by \$23,088.

#### **Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts
- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Bank Reconciliations

#### **Deposits:**

The Sheriff's deposits as of December 31, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$191,971

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Sandy Watkins, Henderson County Judge/Executive  
The Honorable Ed Brady, Henderson County Sheriff  
Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Henderson County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2009 on our consideration of the Henderson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Sandy Watkins, Henderson County Judge/Executive  
The Honorable Ed Brady, Henderson County Sheriff  
Members of the Henderson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts
- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Bank Reconciliations

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Henderson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

November 17, 2009



HENDERSON COUNTY  
ED BRADY, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Fees For Services:

Finance and Administration Cabinet	\$ 193,540	
Sheriff Security Service (HB 452)	<u>54,512</u>	\$ 248,052

Circuit Court Clerk:

Fines and Fees Collected	14,631	
Jurors/Jury Meals	<u>2,704</u>	17,335

Fiscal Court		83,672
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County Clerk - Delinquent Taxes		3,132
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Commission On Taxes Collected		466,093
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Fees Collected For Services:

Auto Inspections	28,339	
Accident and Police Reports	1,852	
Serving Papers	114,780	
Carrying Concealed Deadly Weapon Permits	<u>3,995</u>	148,966

Other:

Telecommunication Commissions	4,110	
Tax Penalty Fees and Advertising	73,072	
Miscellaneous	<u>3,037</u>	80,219

Interest Earned		<u>5,145</u>
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Total Revenues		1,052,614
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HENDERSON COUNTY

The accompanying notes are an integral part of this financial statement.

ED BRADY, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2008  
 (Continued)

Expenditures

Operating Expenditures

Materials and Supplies-

Office Materials and Supplies \$ 366

Other Charges-

Conventions and Travel 550

Postage 1,994

Carrying Concealed Deadly Weapon Permits 15

Miscellaneous 1,993 \$ 4,918

Total Expenditures \$ 4,918

Net Revenues 1,047,696

Less: Statutory Maximum 82,832

Excess Fees Due County for 2008 964,864

Payments to Fiscal Court - Monthly 964,864

Balance Due Fiscal Court at Completion of Audit \$

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HENDERSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Henderson County Fiscal Court approved a fee pooling system for the Henderson County Sheriff. Under the fee pooling system, revenues net of the direct expenses of the County Sheriff's Office are paid to the Henderson County Treasurer in the subsequent month. Therefore, the Fiscal Court pays almost all the expenses of the Henderson County Sheriff's office.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Henderson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

HENDERSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Henderson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 31, 2008, the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$191,971

Note 4. Federal Forfeiture Account

The Henderson County Sheriff maintained a federal forfeiture account during 2008. The beginning balance was \$3,570. Receipts during the year were \$12,719, which included \$155 in interest income. There were disbursements during the calendar year of \$7,955 resulting in an ending cash balance at December 31, 2008 of \$8,334, which was not available as excess fees.

Note 5. State Forfeiture Account

The Henderson County Sheriff maintained a state forfeiture account during 2008. The beginning balance was \$5,953. Receipts during the year were \$3,977, which included \$79 in interest income. There were disbursements during the calendar year of \$2,320 resulting in an ending cash balance at December 31, 2008 of \$7,610, which was not available as excess fees.

Note 6. K-9 Account

The Henderson County Sheriff maintained a K-9 account during 2008. The beginning balance was \$16. Receipts during the year were \$502, which included \$2 in interest income. There were disbursements during the calendar year of \$44 resulting in an ending cash balance at December 31, 2008 of \$474, which was not available as excess fees.

Note 7. Gift/Contribution Account

The Henderson County Sheriff maintained a gift/contribution account during 2008. The beginning balance was \$506. Receipts during the year were \$17,344, which included \$59 in interest income. There were disbursements during the calendar year of \$16,498 resulting in an ending cash balance at December 31, 2008 of \$1,352, which was not available as excess fees.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Sandy Watkins, Henderson County Judge/Executive  
The Honorable Ed Brady, Henderson County Sheriff  
Members of the Henderson County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Henderson County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated November 17, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Henderson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts
- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Bank Reconciliations



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies described above are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Henderson County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Henderson County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Henderson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

November 17, 2009

## COMMENTS AND RECOMMENDATIONS



HENDERSON COUNTY  
ED BRADY, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts

During our review of internal controls, we noted the following control deficiency pursuant to professional auditing standards. The Sheriff's office lacks adequate segregation of duties over cash receipts.

The Sheriff's bookkeeper collects monies from customers, posts to the receipts ledger, prepares bank reconciliations, and prepares financial reports. The Sheriff should implement compensating controls to offset the internal control weakness. The following are suggested compensating controls:

- Someone other than the bookkeeper should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. This could be documented by the individual initialing the bank deposit, daily checkout sheet, and receipts ledger.
- Someone other than the bookkeeper should compare the quarterly financial report to receipts ledger for accuracy. Any differences should be reconciled. This could be documented by the individual initialing the quarterly financial report.

*Sheriff's Response: New process is in place.*

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Bank Reconciliations

During our review of internal controls, we noted the following control deficiency pursuant to professional auditing standards. The Sheriff's office lacks adequate segregation of duties over bank reconciliations.

The Sheriff's bookkeeper performs the monthly bank reconciliations; she maintains the receipts and disbursements ledgers as well. No compensating controls were noted to offset this control deficiency. The Sheriff should implement compensating controls to offset the internal control weakness. The following are suggested compensating controls:

- Someone other than the bookkeeper should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This could be documented by the individual initialing the bank reconciliation and the balance in the checkbook.
- Someone other than the bookkeeper should periodically prepare the bank reconciliation. This could be documented by the individual initialing the bank reconciliation.
- Someone other than the bookkeeper could prepare the schedule of outstanding checks. The individual preparing the schedule of outstanding checks could document this by initialing this schedule of outstanding checks.

*Sheriff's Response: New process is in place.*

